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August 3, 2007

The Honorable John Harris
Speaker of the House
Alaska State Legislature
716 West Fourth Avenue, Suite 300
Anchorage, AK 99501-2133

Dear Speaker Harris:

I would like to take this opportunity to respond to your May 7 letter offering your support and cooperation with regard to matters related to the Petroleum Profits Tax (PPT). It was a pleasure reading that we are on the same page regarding the need to revisit PPT this year.

As you requested, I looked into the process in which the PPT was adopted, and I directed the Department of Revenue to review the implementation of PPT. Examination of the public records associated with the public corruption probe and indictments surrounding the passage of PPT last year provide sufficient evidence to conclude that the outcome of the PPT vote was a result of undue influence. In the interest of maintaining the public integrity of our tax system, the legislature should revisit PPT as soon as possible.

Enclosed is a status report on the performance of PPT to date which was recently completed by the Department of Revenue. As you can see, the performance of our new production tax law has fallen short of the goals and objectives touted by its proponents last year. Not only is the new tax resulting in far lower tax receipts than was originally estimated, the investment incentives incorporated into the new system have proven less valuable to explorers than was predicted when the bill was passed. This is unacceptable. Declining North Slope oil production is the most critical revenue issue facing Alaska today. It is imperative that the state provide incentives to explorers to take the risks necessary to discover new sources of oil production.

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Having reviewed the process leading up to the adoption of the PPT, as well as its performance, I am left with no other conclusion than to remain committed to call a special session.

This is no time for politics and rhetoric. Rather, it's time for good, sound policy that puts the interests of Alaska first. We can ill afford to undervalue a nonrenewable resource such as oil. However, if care is not taken, we jeopardize our long-term prosperity. I am confident we can work together to develop a law that balances an appropriate share of revenue generated from our petroleum resources with an attractive investment climate.

No doubt, there will be critics to whatever proposal is put forward and as we both know it is easy to posture and find fault. However, it will take real leadership committed to find the right solution for the long-term. I urge you and all your colleagues in the legislature to join me in showing Alaskans that we can demonstrate leadership by working together for the common good of our state.

With these thoughts in mind, it is my intention to call a special session of the Alaska State Legislature on October 18. I have directed the Department of Revenue to prepare a proposal to respond to the substantive deficiencies with PPT. I expect a proposal ready for release to the public by September 4. This will provide more than 40 days for the public and legislature to become familiar with the proposal before the special session begins.

I look forward to your continued support and cooperation.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Sarah', with a long, sweeping horizontal line extending to the right.

Sarah Palin
Governor